
Tennessee Regulatory Authority

Annual Report



Promoting the Public Interest for the Future
Electric . Gas . Telecommunications . Water

For the period July 1, 2001 to June, 30, 2002

www.state.tn.us/tra

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INTRODUCTION TO THE TENNESSEE REGULATORY AUTHORITY

February 2003

The Honorable Phil Bredezen
Governor, State of Tennessee

The Honorable John S. Wilder
Lt. Governor

The Honorable Jimmy Naifeh
Speaker of the House of Representatives

Members of the General Assembly

It is with great pleasure that we present to you the Annual Report of the Tennessee Regulatory Authority for Fiscal Year 2001-2002. This report has been prepared in accordance with Tennessee Code Annotated § 65-1-211.

Within this report you will find a review of the activities in which the TRA has been engaged during the past fiscal year, a summary of our operating budget, an abstract of the minutes from our monthly Conferences and an organizational chart. You will also find individual reports from the seven Divisions within the TRA that oversee our regulatory, legal and operational responsibilities.

As we embark upon the second half of this fiscal year, we eagerly look forward to the many new regulatory challenges and issues that will undoubtedly arise during our tenure: from the Federal Communication Commission's recent approval of BellSouth's application to provide in-state long-distance telephone service, to our on-going effort to protect Tennessee consumers from utility fraud.

As the newly appointed Directors of the TRA, we have endeavored to make this report comprehensive, informative and easily understood. We look forward to continuing the tradition of excellence expected from us, as well as to receiving another year of support and encouragement from you.

Respectfully submitted,

Sara Kyle, Chairman
Deborah Taylor Tate, Director
Pat Miller, Director
Ron K. Jones, Director

INTRODUCTION TO THE TENNESSEE REGULATORY AUTHORITY



L to R: Director Ron Jones, Director Pat Miller, Chairman Sara Kyle and Director Deborah Taylor Tate.



In 1995, the General Assembly passed legislation to create the Tennessee Regulatory Authority (Authority), a governing body to regulate utilities in the state of Tennessee. The Authority's mission is to promote the public interest by balancing the interests of utility consumers and providers while facilitating the transition to a more competitive environment.

Leadership of the Authority is comprised of four Directors, each of whom is appointed to serve a six-year term. Chairman Sara Kyle is the appointee of House Speaker Jimmy Naifeh; Director Deborah Taylor Tate is the appointee of Governor Don Sundquist; Director Pat Miller is the appointee of Lt. Governor John Wilder and Director Ron Jones is the joint appointee of the Governor, Lt. Governor and Speaker of the House. The Chairmanship will rotate among each director for the duration of their terms.

INTRODUCTION Cont.

OUR MISSION

The mission of the Tennessee Regulatory Authority is to promote the public interest by balancing the interests of utility consumers and providers while facilitating the transition to a more competitive environment.

This mission is fulfilled through the functions of economic regulation, regulatory oversight, service regulation and consumer assistance.

Economic Regulation — The Authority provides an accessible and efficient regulatory process that is fair and unbiased. We ensure that the regulatory process results in fair and reasonable rates while offering rate-based regulated utilities an opportunity to earn a fair return on their investments.

Regulatory Oversight — The Authority provides appropriate and necessary regulatory oversight to protect consumers and facilitate the development of fair and effective competition in the provision of telecommunications services.

Service Regulation and Consumer Assistance — The Authority protects and educates the public in the changing environment of competition among utilities by becoming a consumer service focused agency. We also inform utility consumers regarding utility matters and expedite the resolution of disputes between consumers and utilities.

OUR PHILOSOPHY

To function with the highest degree of ethics, serving before the public with accountability and openness. To carry out our regulatory duties with diligence, while operating in a competent, effective, and efficient manner. In serving the public, we will balance the interests of consumers, regulated entities, and others, while maintaining a standard of excellence. This is accomplished by remaining technically up-to-date, utilizing modern state-of-the-art communications tools, computer systems and equipment, which allows for the responsive and accurate processing of consumer information, regulatory data, industry audits, inspection results, and requests for service.

The Tennessee Regulatory Authority is available on the World Wide Web at www.state.tn.us/tra. The web site contains a wide spectrum of information and services for consumers as well as for the utilities under our jurisdiction.

Visitors to our web site will find resources that encompass the scope of our duties related to the companies that we regulate and the consumer programs under our direction. The following is a sample of what is available:

Consumer Information — Whether a person wishes to register for the Tennessee “Do Not Call” program, learn about the reasons for area code changes, file a consumer complaint, or learn about our telephone assistance programs, it can all be found under the “consumer information” listing on our homepage.

Divisional Information — Information about each division is located under the “TRA Divisions” section of the site. There you will find each division’s mission statement, along with a brief description of that division’s function within the Authority.

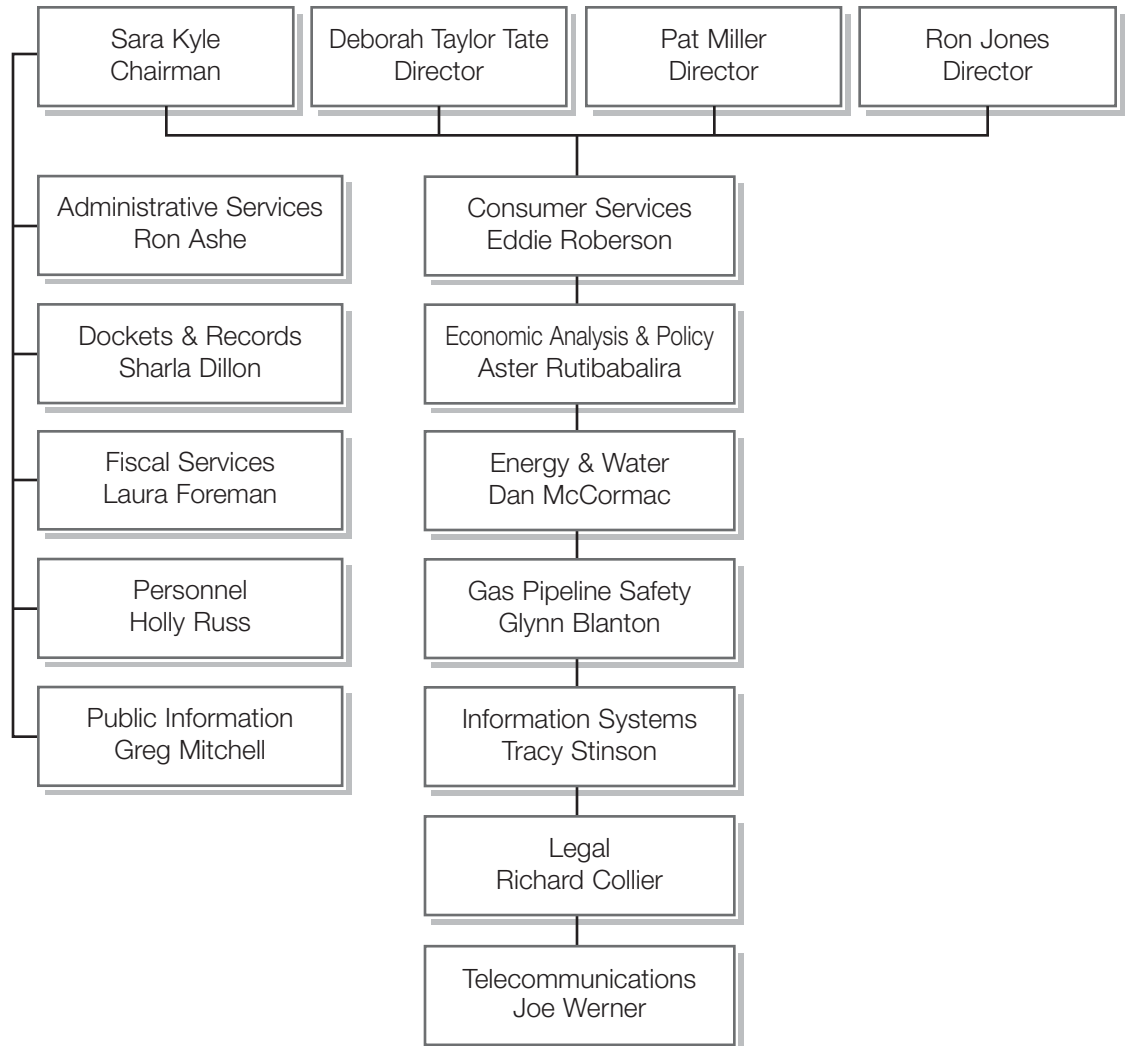
Regulatory Cases — Visitors can track the progression of a case online through the “Electronic Fileroom.” Updated daily, there are over 2,000 dockets cataloged for review. And to make searching for documents easier, a keyword search engine has been added to accelerate the search process.

Conference Agendas — To coincide with our bi-monthly Authority conferences, an online version of our conference agenda is posted weekly on our site. To access a copy, go to the “Electronic Fileroom” and locate “Final Conference Agenda.”

TRA News — Under “Press Releases” visitors will find information about recent Authority decisions.

Miscellaneous — Past and present TRA reports, TRA Rules and Regulations, pertinent information related to gas pipeline news and utility applications and procedures, TRA Appeals and Petitions to the FCC, as well as TRA Orders can also be found online.

TENNESSEE REGULATORY AUTHORITY



INTRODUCTION Cont.

The Authority has jurisdiction over public utilities including:

- Electric companies,
- Telephone companies,
- Water companies, and
- Natural gas companies.

Pursuant to T.C.A. § 65-4-104, statutory responsibilities include making rules for utility operations, utility rates, and regulating gas safety standards. Quasi-judicial powers allow the Authority to decide the granting of operating authority and to adjudicate conflicts and controversies arising from utility operations.

Financially independent of the General Fund, the Authority's operational expenses are covered wholly by the industries it regulates, with a small portion coming from the federal government.

As of June 30, 2002, the Authority was budgeted for 90 positions. The Divisions and staff positions within each are as follows:

Directors	4
Directors' Staff	8
Administrative Staff	9
Consumer Services	15
Energy & Water	5
Gas Pipeline Safety	7
Information Systems	4
Legal	9
Telecommunications	19
Economic Analysis & Policy	4
Universal Service Division	6

90 staff positions

Staff of the Authority includes accountants, administrators, attorneys, consumer specialists, economists, engineers, information systems and computer specialists, a public information officer, and office support.

UTILITIES UNDER THE AUTHORITY'S JURISDICTION

Listed below are the approximate number of utilities under the jurisdiction of the Tennessee Regulatory Authority as of June 30, 2002.

Energy & Water	
Electric	3
Natural Gas Companies	6
Water & Waste Water	13
Telecommunications	
Competing Telephone Service Providers	93
Customer Owned-Coin Operated Telephone Providers	240
Incumbent Telephone Companies	18
Local Service Resellers	74
Resellers and Operator Service Providers	260
Gas Pipeline Safety	
Apartments*	14
Direct Sales*	23
Housing Authorities*	33
Intrastate Pipeline*	8
LNG Operators*	2
Mobile Home Parks*	4
Miscellaneous Master Meters*	0
Municipalities*	73
Utility Districts*	24
Total Public Utilities	888

* These entities are regulated by the Authority only to ensure compliance with Minimum Federal Safety Standards for the transmission of natural gas.

THE OFFICE OF THE CHAIRMAN



Sara Kyle
Chairman



Shirley Frierson
Senior Policy Advisor

MISSION: *To coordinate the activities of the Authority and ensure that matters brought before it are handled in a fair and impartial manner, always moving toward improving services to the people served by the authority.*

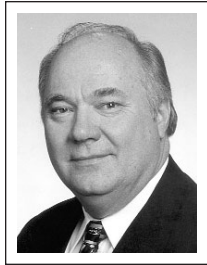
The Office of the Chairman serves as the chief administrative officer of the Tennessee Regulatory Authority with the power and duty to conduct the ordinary and necessary business in the name of the Tennessee Regulatory Authority. The duties of the chairman's office include, but are not limited to the following:

- ◆ Serve as chief operating officer of the Authority responsible for supervision and hiring of all joint staff members within the limits of available funds authorized by Chapter 305 of the Public Acts of 1955.
- ◆ Recommend to the Authority such rules and policies as are necessary and appropriate to efficiently and economically provide for internal management of the Authority;
- ◆ Coordinate the preparation of the annual report to the general assembly as required by Tennessee Code Annotated, Section 65-1-211;
- ◆ Prepare and call the docket of items to be heard during each scheduled meeting of the Authority;
- ◆ Keep the official full and correct record of all proceedings and transactions for the Authority;
- ◆ Schedule the Authority's hearings;
- ◆ Prepare and distribute the Authority's Conference agendas;
- ◆ Coordinate and expedite matters pending before the Authority;
- ◆ Serve as the Authority's designated contact for all media inquiries;
- ◆ Administer, monitor and review the operating procedures of each division of the Authority to ensure that each fully executes in an efficient manner the separate duties and responsibilities assigned to each;
- ◆ Oversees the expenditure of funds and compliance with all applicable provisions of state and federal law in receipt and disbursement of funds;
- ◆ Prepare annual budget;

In order to carry out these functions and responsibilities, the Chairman's office consist of Dockets and Records, Personnel Office, Public Information, Fiscal and Administrative.

THE OFFICE OF THE CHAIRMAN

Administrative Staff



Ron Ashe
Administrative Officer



Shirley Clinard
Account Technician



Sharla Dillon
Dockets & Records



Laura Foreman
Fiscal Officer



Greg Mitchell
Public Information



Thomas Pearson
Procurement Officer



Joyce Robinson
Administrative Services
Assistant



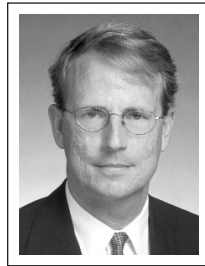
Holly Russ
Personnel Manager

DIRECTORS' STAFF

Director Deborah Taylor Tate



Mary Ellen Tate
Executive Administrative
Assistant



Mark Reineke
Senior Policy Advisor

Director Pat Miller



Stacy Balthrop
Executive Administrative
Assistant



Lisa Cooper
Senior Policy Adviser

Director Ron Jones



Martha Tria
Executive Administrative
Assistant



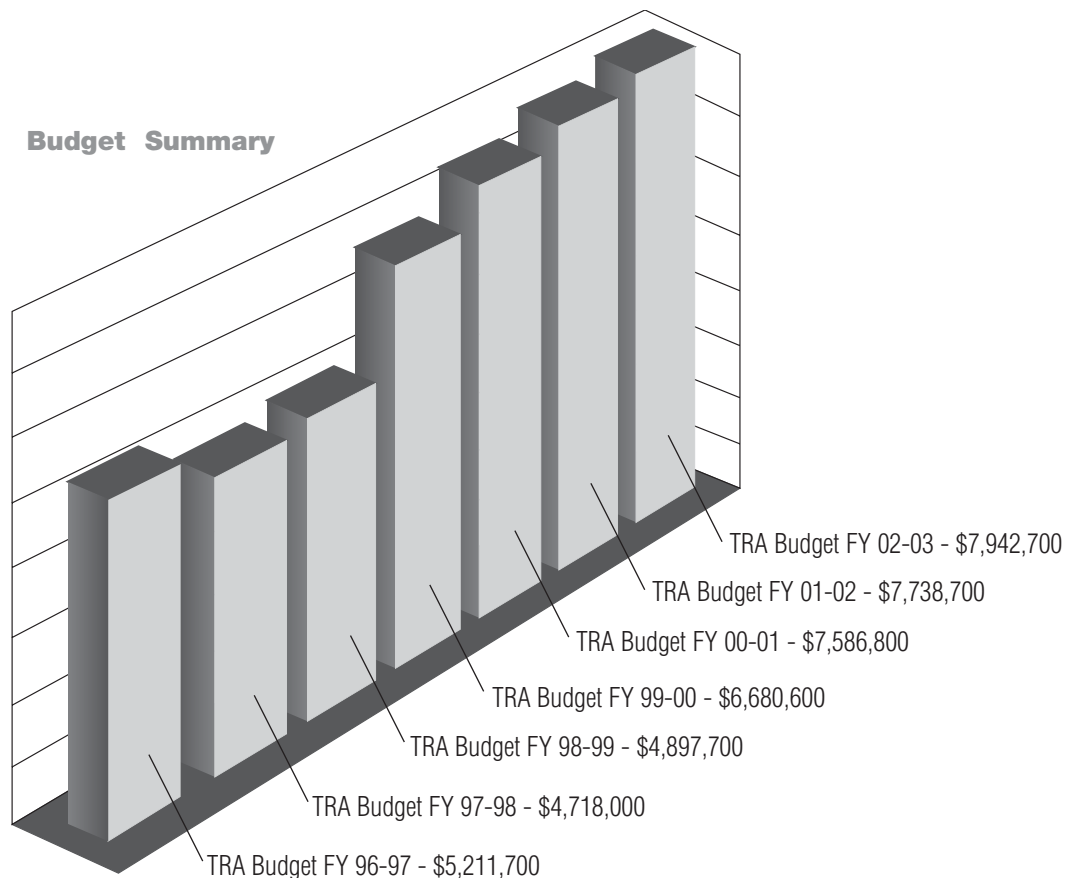
Julie Woodruff
Senior Policy Advisor

BUDGET SUMMARY APPROPRIATIONS, FEES AND EXPENSES

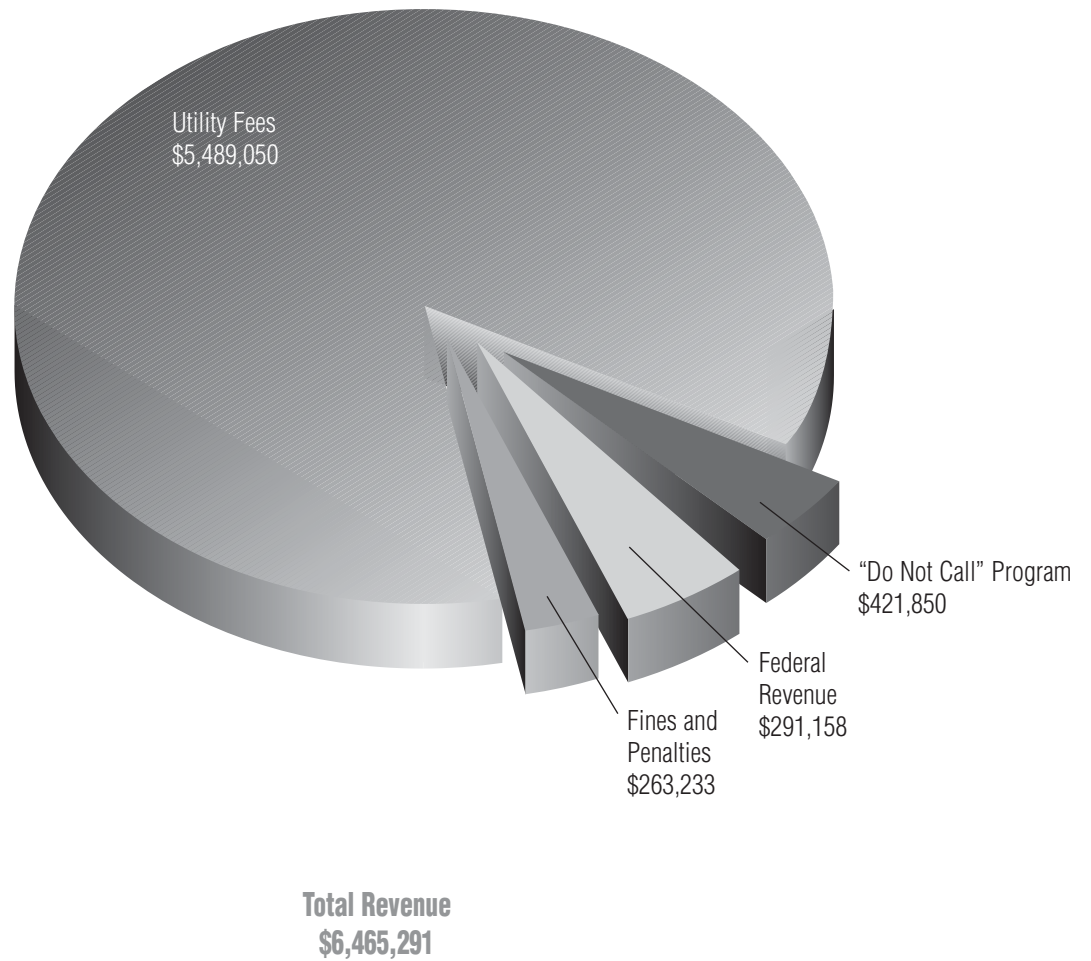
The TRA began fiscal year 2001-2002 (FY02) with a budget of \$7,738,700 which was a 2.0% increase over the FY01 budget of \$7,586,800. The entire increase was due to the statewide salary increases and related costs effective July 1, 2001. While actual expenditures increased 3.9% from \$6,434,211 for FY01 to \$6,687,089 FY02, revenues for the same period decreased 1.5% from \$6,565,798 to \$6,465,291 (the FY01 revenues of \$6,565,798 excludes the \$774,518 collected for the Telecommunications Devices Access Program, the use of which was governed by specific legislation).

The majority of the revenues collected by the TRA are derived from utility inspection fees. These inspection fees are based on annual gross intrastate revenues and are paid by the public utilities to defray the cost of regulation by the TRA. Since the inception of the TRA on July 1, 1996, inspection fees have increased an average of 6.49% annually. During FY02 \$5,489,050 of total revenue received was from inspection fees. In addition to the inspection fee revenue, the TRA received \$291,158 in federal revenue, \$421,850 in registration fees from telemarketers for the "Do No Call" program, and \$263,233 in fines and penalties. All of the funds received by the TRA are deposited in the Public Utilities Account.

The budget for FY03 is \$7,942,700 of which 100% will be funded by revenues received from sources other than the General Fund of the State of Tennessee. Therefore, the Authority is financially sound and is able to operate efficiently and productively within anticipated revenues.



**REVENUE OF TRA
FY 2001-2002**



DOCKET ROOM AND AUTHORITY ACTIVITY

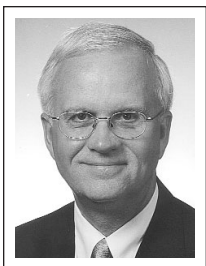
The Directors conduct the business of the Authority through regularly scheduled Authority conferences. The Official Minutes of the conferences are kept in the Docket Room and are available to the public for inspection at all times. The minutes show every action taken by the Authority and are prepared in a manner permitting immediate reference to the actions of the Authority. The Authority's Docket Room also maintains all filings made with the Authority and updates the official calendar of the agency. In addition to paper files, the Authority maintains an electronic fileroom on its web page that contains all documents filed since 1-1-99. The following information is available in the Docket Room:

- ◆ Docket Numbers
- ◆ Name of Applicants/Petitioners
- ◆ Subject Matter of Applications/Petitions
- ◆ Dates of Final Orders
- ◆ Summaries of Authority Action

VOLUME OF PROCEEDINGS BEFORE THE AUTHORITY FOR FISCAL YEAR ENDING JUNE 30, 2002

	FY 97	FY 98	FY 99	FY 00	FY 01	FY02
Total Number of Filings	375	702	1454	1808	1925	1736
Tariffs Reviewed	316	444	438	588	691	838
Interconnection and Resale Agreements Approved	42	69	81	87	146	129
COCOT Authorities Issued	212	62	48	41	36	15
Reseller Certificates Approved	78	91	134	87	41	20
Number of Conferences	27	25	26	26	24	24
Hearings	60	86	53	84	86	71
Hearing Days	35	100	55	76	75	58
Final Orders Issued	174	212	445	336	472	869
Orders Appealed	5	6	6	7	17	18

CONSUMER SERVICES DIVISION



Eddie Roberson, Ph.D.
Chief

Mission: To ensure that consumers are aware of the changes in the utility arena and receive an adequate level of services from regulated companies by providing consumer outreach and monitoring the services that they provide by conducting quality of service tests, initiating investigations, mediating consumer-utility disputes and enforcing the Authority's rules and regulations.

The Consumer Services Division ("CSD") is responsible for monitoring the quality of services provided by regulated utilities and enforcing the rules and regulations of the Authority. The major aspect of this responsibility is to investigate and mediate consumer complaints against regulated utilities pursuant to T.C.A. §§ 65-4-119 and 65-4-401 et seq. The CSD also performs other functions such as: serving as the consumer education/outreach office for the Authority developing and implementing programs to educate the public on utility issues; implementing the Do Not Call Telemarketing statute entailing the registration of solicitation companies and maintaining the Do Not Call Register; and distributing assistive telecommunications devices to the Deaf, Deaf-Blind, Hearing and Vision-Impaired, Hard of Hearing and Speech-Impaired community through the Telecommunications Devices Access Program ("TDAP") in compliance with TCA § 65-21-115.

The CSD conducts service hearings, community outreach meetings, utility service audits, offers testimony at utility proceedings and recommends enforcement action on utilities not complying with state law or the rules and regulations of the Authority. The CSD also monitors the operation of the Tennessee Relay Center for the hearing and speech-impaired.

The CSD staff consists of a chief, three program administrators, one legal assistant, one administrative assistant, three administrative secretaries, and 7 consumer protection specialists.

2002 Major Activities

- ◆ Investigated 2046 regulated consumer complaints against utility companies.
- ◆ Assisted in securing refunds of \$282,585.79 to consumers as a result of investigations.
- ◆ Administered the TDAP program that is authorized by T.C.A. 65-21-115. The TDAP program issued 1324 devices costing \$174,862 to 926 deaf, deaf-blind, hearing and vision-impaired, hard of hearing and speech-impaired Tennessee residents. TDAP also provided numerous training on issued equipment as well as attended various functions to promote the TDAP program. TDAP also holds quarterly meetings with a TDAP advisory committee to ensure that the needs of Tennessee's deaf, deaf-blind, hearing and vision-impaired, hard of hearing and Speech-Impaired consumers are being served.
- ◆ Investigated Talk.com a telecommunication company for its violation of TRA Rules and Regulations. This investigation led to a settlement where the company has agreed to pay \$325,000 in fines and penalties to the state in addition to several thousands of dollars in refunds to consumers. This settlement centered on investigations regarding: (1) The unauthorized switching of a consumer's local or long distance service (referred to as "slamming") (2) The unauthorized placing of charges on a consumer's telephone bill (referred to as "cramming") and (3) The solicitation of consumers on the Do Not Call Register.

CONSUMER SERVICES DIVISION

- ◆ Investigated 344 complaints against telephone companies for switching a consumer's phone service without authorization during FY 2002. A total of \$34,102.42 was refunded to consumers from companies found not to have proper authorization to switch the customer's service.
- ◆ Administered the Link-up Telephone Assistance Program. This program assists low- income citizens by reducing the installation charge to establish local telephone service. For calendar year 2001, 5,997 recipients utilized the Link-up Tennessee program and saved a total of \$121,506 to establish telephone service.¹
- ◆ Administered the Lifeline Telephone Assistance Program. This program is designed to ensure that all Tennesseans have access to affordable telephone service. In 2001, 45,695² Tennesseans signed up for this reduced rate telephone service and saved a total of \$6,046,151 on their annual telephone bills.³
- ◆ Reviewed the operations of the "TRC", which is under new contract with MCI Global Relay, to ensure that it is complying with the Authority's rules and regulations. The TRC is a service designed to assist the speech and hearing impaired with the making and receiving of telephone calls. Call volume for the fiscal year was 878,170. That is an increase of 18,010 calls over last years total.
- ◆ Administered the Tennessee "Do Not Call" Program (T.C.A. 65-4-401). For 2002, over 750,000 Tennesseans have signed up for the program and 612 telemarketing companies are registered with the TRA. The TRA has investigated 656 telemarketing complaints from consumers against telemarketing companies for fiscal year 2002, compared to 930 complaints for 2001.
- ◆ Initiated enforcement actions, which resulted in seven (7) telemarketing companies paying a total of \$126,000 in settlements to the state for Do Not Call violation.
- ◆ Conducted Consumer Education presentations to over twenty-six (26) consumer groups statewide in addition to the distribution of over 50,000 informational brochures that explains the various programs and services offered. To assist with the distribution of consumer information, partnerships were established with other state agencies such as the Department of Human Services, Tennessee Department of Health, Better Business Bureau and other local entities whose clients might need our services.

Illustrated on the next page are several graphs depicting the trend in utility complaint statistics.

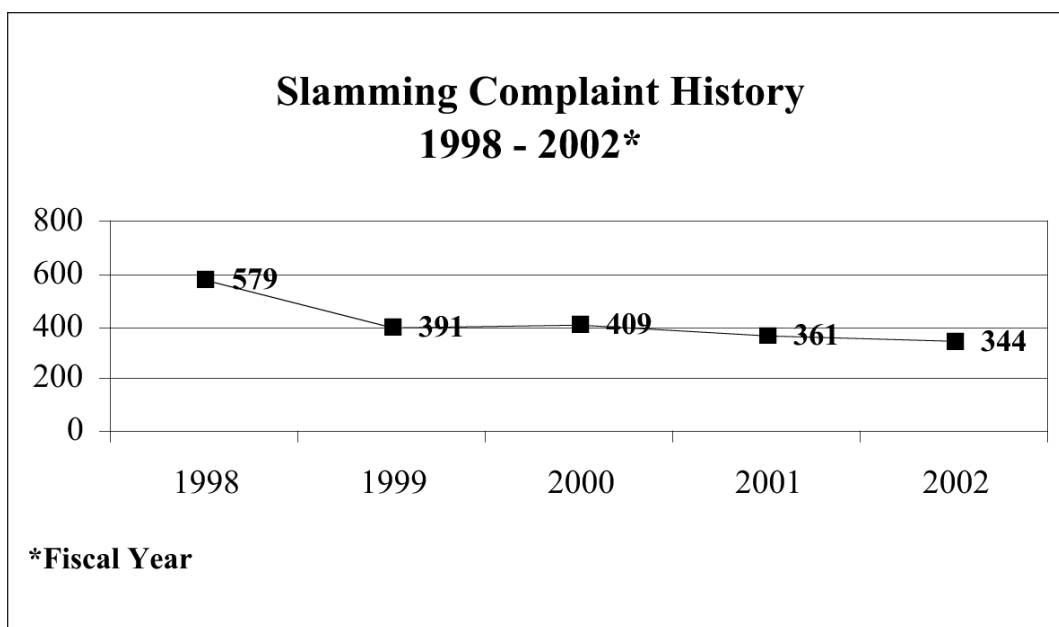
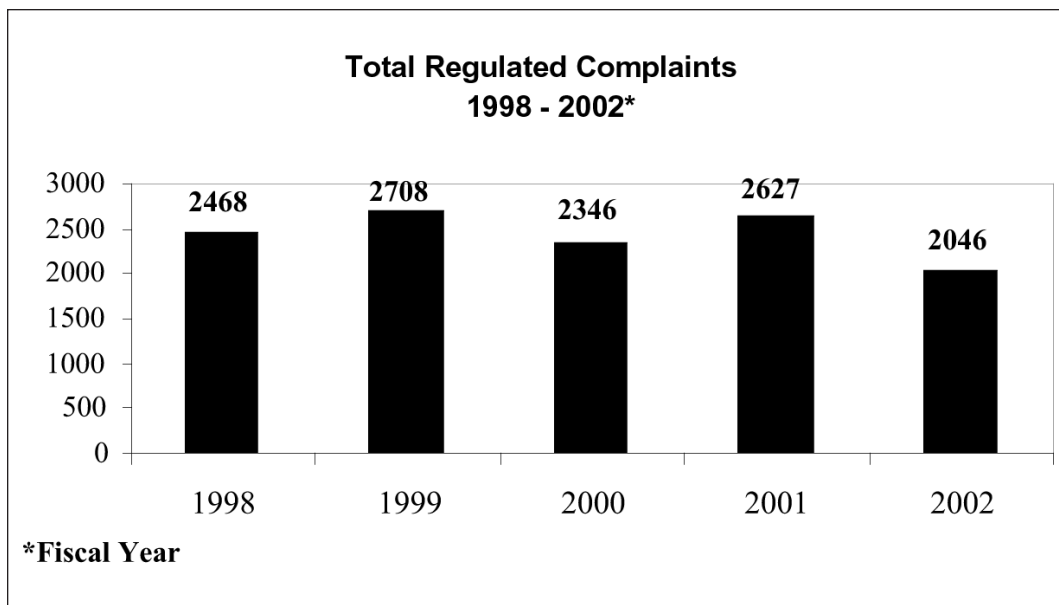
¹ Reported by Universal Service Administrative Company (USAC).

² Reported by USAC. The Lifeline subscribership for the July 1, 2000 to June 30, 2001 Annual Report was 38,839 instead of 47,070.

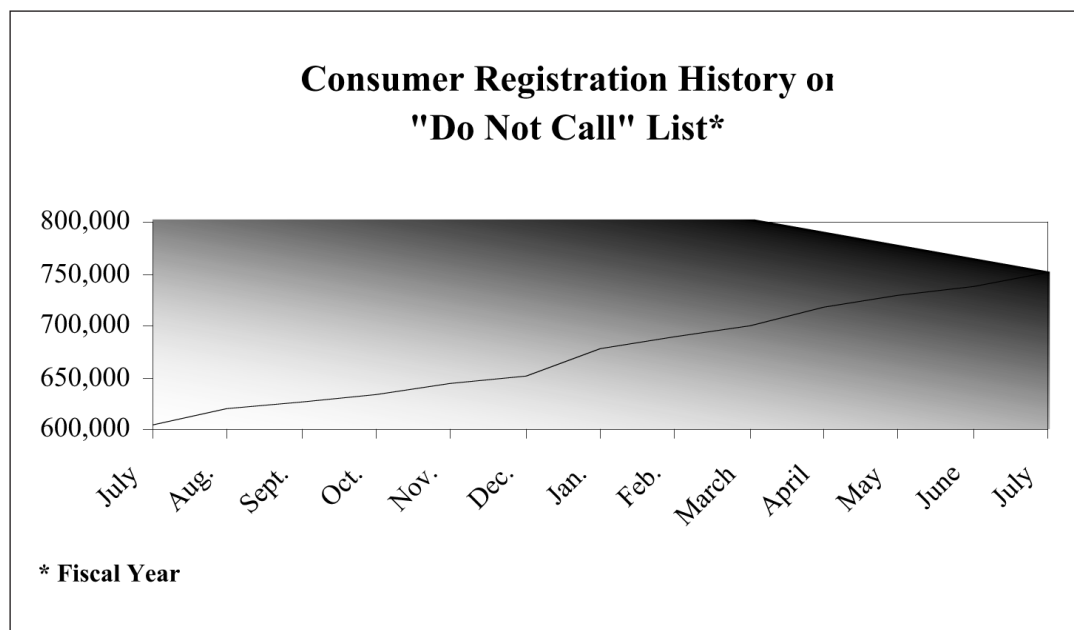
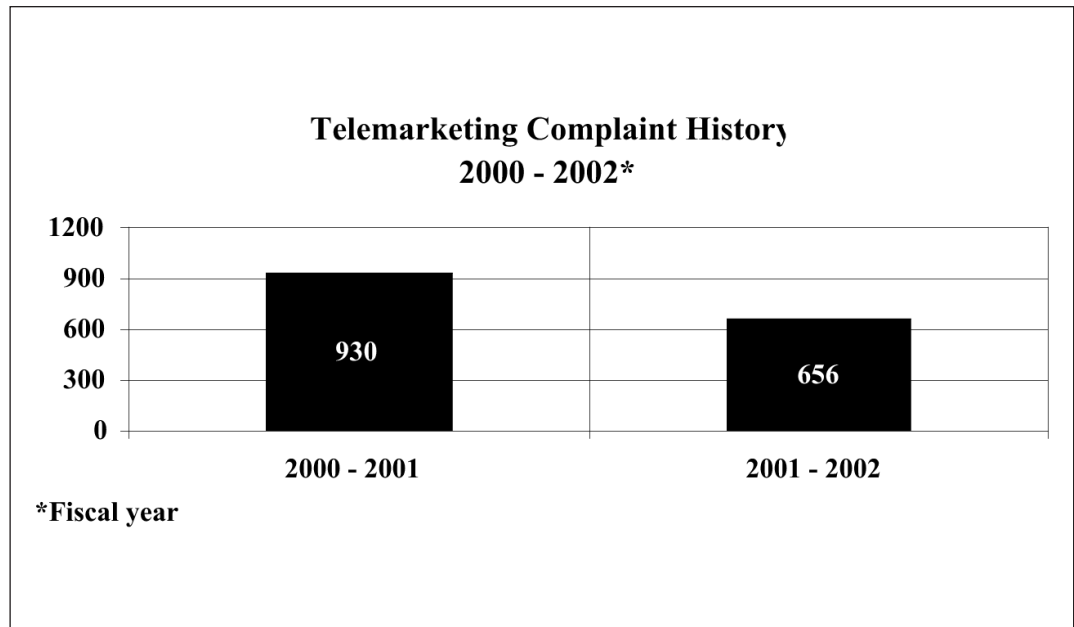
³ USAC reimbursement of 4,126,961 plus \$1,919,190 (\$3.50 (TN Matching) x 45,695 (2001 Lifeline subscribers) x 12 (annual)).

CONSUMER SERVICES DIVISION

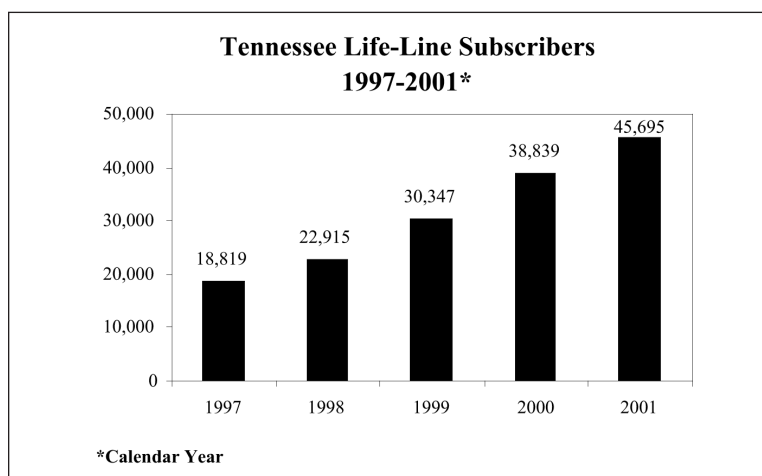
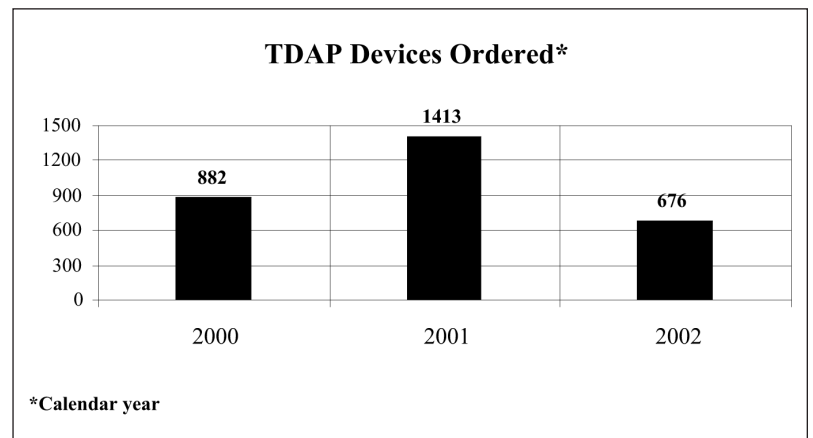
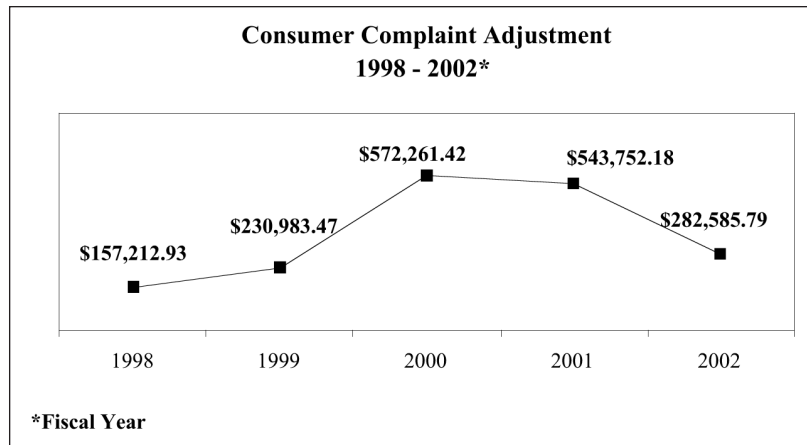
Categories of Complaints Investigated by Utility During 2002:



CONSUMER SERVICES DIVISION



CONSUMER SERVICES DIVISION



CONSUMER SERVICES DIVISION STAFF



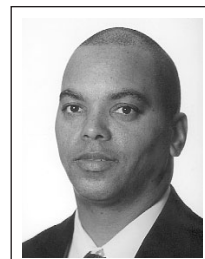
Vivian Michael-Wilhoite
Assistant Chief



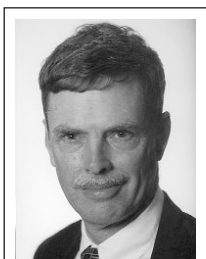
Tina Baker
Administrative Secretary



Patrice Barner
Administrative Secretary



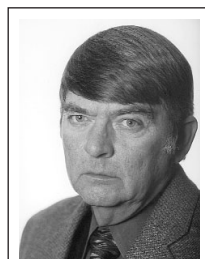
Carlos Black
Consumer Protection
Specialist



John Conners
Consumer Protection
Specialist



Jean Curran
Consumer Protection
Specialist



Lewis DeBoard
Manager, Telecommunications
Devices Access Program



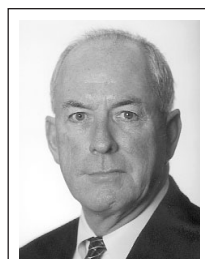
Lisa Foust
Consumer Protection
Specialist



Mary Kraycirik
Administrative Assistant



Ed Mimms
Manager, Tennessee
Do Not Call Program

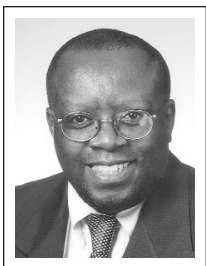


Charles Pemberton
Consumer Protection
Specialist



Ginger Stephens
Administrative Secretary

ECONOMIC ANALYSIS & POLICY DIVISION



Aster Rutibabalira
Chief

MISSION: To provide economic research, analysis, and advice to the Directors and staff of the Tennessee Regulatory Authority (TRA).

At the request of the Directors or staff, the Economic Analysis Division reviews evidence and provides advice in contested cases coming before the Directors for decision. Division staff participated in one hundred and sixty-three (163) docketed proceedings before the TRA, including: a proceeding to set wholesale prices for telephone line sharing; BellSouth's application to provide long distance service in Tennessee; an audit of United Cities Gas Company's Incentive Plan; as well as various tariff changes, special contract arrangements, and arbitrations of interconnection agreements.

The Division has primary responsibility for reviewing applications for the approval of mergers, acquisitions, transfers of authority and the issuance of new financial instruments by public utilities. Division staff reviewed 47 of these applications between July 1, 2001 and June 30, 2002. Amendments to the Authority's Slamming Rules to handle financial transactions involving transfers of customers among companies were initiated by Division Staff and became effective on January 14, 2002.

The Division also prepares reports, undertakes long term research, and manages the student internship program. Division staff took a leading role in the TRA's report on the availability of wireless telephone service in Tennessee. Student interns are assigned research projects to complete during a semester of part-time work at the Authority. Four interns participated in the program during this fiscal year. Two interns examined basic telephone service penetration rates in Tennessee using 1990 and 2000 census data. One intern investigated the determinants of investment in wireless telephone facilities in Tennessee, while another researched urban and rural internet use in the state.

The research program also includes the participation of Division staff in professional meetings and the publication of research papers. Division staff attended the National Association of Regulatory Utility Commissioners Winter Committee Meetings, the Southeastern Association of Regulatory Utility Commissioners Annual Meeting, and conferences addressing national energy and environmental issues. Research papers by Division staff were presented at the annual meetings of the Southern Economic Association and the American Economic Association. Two additional papers were published in The Electricity Journal and the National Regulatory Research Institute's Quarterly Bulletin. Another paper is under review by the Journal of Productivity Analysis.

The Division also undertakes strategic planning for the TRA by identifying likely future issues affecting the industries under TRA jurisdiction. Current projects include: the implications for Tennessee of restructuring of the U. S. electric power industry and monitoring the status of universal telephone service in the state, including internet use and availability. Division Staff generated comments on several Federal Energy Regulatory Commission initiatives concerning the establishment of Regional Transmission Organizations in carrying out these duties.

ECONOMIC ANALYSIS & POLICY DIVISION STAFF

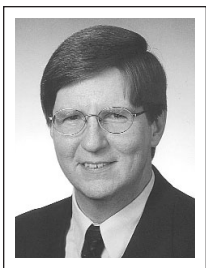


Betty Baily
Administrative Assistant



Rosie Gregory
Economic Policy Analyst

ENERGY & WATER DIVISION



Dan McCormac
Chief

MISSION: The Energy and Water Division is responsible for providing the Authority with technical assistance and financial recommendations on energy, water, and sewer service issues facing Tennessee. This is to ensure that all regulated services are provided in a safe, reliable and efficient manner that meets the diverse needs of our citizens, enhances economic development and strengthens Tennessee's competitive environment.

DIVISION RESPONSIBILITIES:

Price and Earnings Adjustments

Tennessee Code Annotated Sections 65-5-201 through 65-5-209 give the Authority the responsibility of setting or approving the rates and prices charged by public utilities, as defined in Section 65-4-101, operating within the State of Tennessee. The Division assists the Authority in carrying out this responsibility by evaluating periodic rate and price adjustment requests filed by utilities or other interested parties.

Tariffs (44)

Each utility under TRA jurisdiction is required to submit a schedule of its rates, rules and regulations in the form of a tariff. Petitioners may file proposed revisions from time to time in order to adjust their tariffs. The Division reviewed 5 tariff filings and 34 Purchased Gas Adjustments (PGAs) filings.

Audits (12)

There are four (4) basic types of audits performed by the Energy and Water Division. These audits are: Compliance audits, Actual Cost Adjustment (ACA) audits, Weather Normalization Adjustments (WNA) audits and Performance Incentive Plan (IPA) audits.

- 1) **Compliance Audits (1)** - Compliance audits are performed to monitor the utility's compliance with applicable laws, orders, and policies of the Authority, as well as utility accounting operations to insure compliance with the Uniform System of Accounts (USOA) prescribed by the National Association of Regulatory Utility Commissioners. The Division schedules and conducts these audits as resources permit. The Division Staff audited one company, Total Environmental Solutions, Inc. (formerly Foothills Utilities).
- 2) **ACA Audits (6)** - The Authority's Rule 1220-4-7-.02 permits a gas utility to recover, in a timely fashion, the total cost of gas purchased for delivery to its customers. The Purchased Gas Adjustment (PGA) Rule, which was adopted July 1, 1992, is the mechanism used to accomplish the recovery. It consists of three major components:
 - ◆ Actual Cost Adjustment (ACA)
 - ◆ Gas Charge Adjustment (GCA)
 - ◆ Refund Adjustment (RA)

ENERGY & WATER DIVISION

The ACA is the difference between the revenue billed customers by means of the GCA and actual costs paid to suppliers as reflected in the Deferred Gas Cost account. The rule requires the utility to submit a filing each year detailing the transactions in the Deferred Gas Cost Account. The TRA Staff audits this filing to determine that the utility is following all the rules, regulations, and directives adopted by the Authority. This provides assurance to the Authority that the utility has not over-collected or under-collected gas costs from its customers.

Each year, the Staff conducts ACA audits on the six gas distribution utilities under rate jurisdiction of the TRA: Atmos Energy Corporation, Chattanooga Gas Company, Nashville Gas Company, Counce Natural Gas, Gasco Distribution Systems, and Red Boiling Springs Gas Utility. During the 2002 fiscal year, the Staff reviewed gas invoices for these utilities totaling approximately \$338,044,405. The Staff also reviewed all adjustments made to the Deferred Gas Cost accounts, the underlying supporting documentation, the calculation of gas cost recoveries and compliance with PGA filings, including ongoing Refund Adjustments, and the calculation of interest on account balances. The Staff recalculated sample bills for each month of the audit period to assure that the correct tariff rates and gas cost adjustments were being passed on to the customers. Audit results and recommendation are detailed in an audit report.

- 3) **WNA Audits (3)** - In setting rates, the Tennessee Regulatory Authority uses a normalized level of revenues and expenses for a test year to eliminate unusual fluctuations. One part of normalizing revenues in the test year is the adjustment of weather related sales volumes to reflect “normal” weather, which is calculated based on the previous thirty years’ weather data. Since “normal” weather rarely occurs, the customer bills can fluctuate dramatically due to weather changes from month to month, and gas companies’ revenues likewise fluctuate, causing them to earn more or less than their authorized rate of return. In recognition of this fact, the TRA has approved the Weather Normalization Adjustment (WNA) Rider, to be applied to residential and commercial customer bills during the winter months.

The TRA Staff conducts audits each year of the WNA Rider as it is applied to the three major gas companies: Atmos Energy Corporation, Chattanooga Gas Company, Nashville Gas Company. In order to meet the objectives of the audit, the Staff compares the following on a daily basis:

- 1) The company’s actual heating degree days to National Oceanic and Atmospheric Administration (NOAA) actual heating degree days;
- 2) The company’s normal heating degree days to the normal heating degree days calculated in the last rate case; and
- 3) The company’s calculations of the WNA factors to the Staff’s calculations.

The Staff also audits a sample of customer bills during the WNA period to verify that the WNA factor has been correctly applied to the bills. Results of the audits and any recommendations are detailed in the annual audit report for each company.

During the 2002 fiscal year, WNA related revenues for the three gas utilities amounted to \$8.3 million in refunds. Staff audit findings showed a net under-collection of WNA revenues of \$120,499 from the ratepayers of Tennessee.

- 4) **IPA Audits (2)** - The Performance Incentive Plan mechanism was approved by the TRA and is designed to provide incentives to the gas utility in a manner that will produce rewards for its customers and its shareholders, and improvement in the gas procurement activities.

ENERGY & WATER DIVISION

Two of the three major gas companies now have in place Performance Incentive Plans. On February 16, 1999 for Atmos Energy Corporation and on August 18, 1998 for Nashville Gas Company, the TRA approved permanent performance-based ratemaking mechanisms, designed to create an incentive for the company to improve its gas purchasing activities. If the company is able to perform better than the market, as defined by pre-defined benchmarks, both the company and its ratepayers benefit by sharing equally in the savings. Likewise, if the company purchases gas above the pre-defined benchmarks, the Company absorbs part of the excess costs. The Incentive Plan replaces the after-the-fact reasonableness or prudence reviews of gas purchasing activities as required by the Purchased Gas Adjustment Rule.

Atmos Energy Corporation and Nashville Gas Company are required to file a report of the shared savings and shared costs in the Incentive Plan Account at the end of each plan year. The Staff audits these filings similar to the audits conducted for the ACA filings.

Miscellaneous Projects and Activities

Certificate of Convenience and Necessity (CCN) Applications (12)

CCNs are required by law for each public utility operating in Tennessee. During the 2002 fiscal year, twelve CCN applications were reviewed by the TRA.

Annual Report Audits (19)

Nineteen energy & water utilities file annual reports with the TRA. The Division Staff audits these annual reports to ensure the completeness of their financial data.

Activities

The Energy and Water Division continues to participate in various training opportunities to assist us in staying up to date on governmental and industry trends in the electric, gas, water and sewer industries. We also meet regularly with industry representatives to encourage the sharing of ideas on how to improve customer service and operating efficiencies.

Utility Deregulation

The significant issues raised by problems encountered in other states have substantially reduced the interest in deregulation of energy utilities. However, we continue to monitor and participate in the research of alternative forms of regulation which encourage improvements in efficiency and services.

ENERGY & WATER DIVISION

CUSTOMERS SERVED BY ELECTRIC, GAS, WATER, WASTEWATER UTILITIES WITHIN TENNESSEE DURING FY 2001-2002

COMPANY	Residential	Commercial	Industrial	Other	Totals	Residential	
						Annual Usage	Annual Bill
GAS UTILITIES:						MCF	
Atmos Energy Corp.	103,837	15,528	402	669	120,436	63.93	\$789.91
Chattanooga Gas Company	49,918	8,007	70	4	57,999	76.21	\$738.43
Counce Natural Gas	119	35	2	-	156	46.71	\$459.74
Gasco	408	90	8	-	506	51.72	\$659.31
Nashville Gas Company	126,654	16,308	198	-	143,160	75.01	\$843.40
RBS Gas Utility	216	18	1	-	235	34.86	\$418.46
ELECTRIC UTILITIES:							
Entergy Arkansas, Inc.	33	7	4	-	44	6,170	\$560.88
Kentucky Utilities Co.	5	1		-	6	24,833	\$427.80
Kingsport Power Co.	39,727	5,069	194	173	45,163	16,576	\$812.15
WATER/SEWER UTILITIES: Gallons							
Antioch Water (water)	243	-	-	-	243	1,267	\$176.22
Aqua Utilities (W)	163	-	-	-	163	51,625	\$109.31
Aqua Utilities (S)	130	-	-	-	130	N/A	\$448.33
Cartwright Creek (S)	469	28	-	-	497	N/A	\$362.47
Foothills Properties (W)	92	-	-	-	92	67,898	\$434.16
Hickory Star (W)	58	-	-	-	58	N/A	\$133.99
Lynnwood Utilities (S)	624	-	-	-	624	97,910	\$526.18
Newport Resort Water Sys. (W)	49	-	-	-	49	61,581	\$338.10
On Site Systems, Inc. (S)	138	-	-	-	138	N/A	\$424.95
Shiloh Falls Utilities (S)	103	-	-	-	103	N/A	\$370.94
TN American Water Co. (W)	55,225	7,518	149	1,595	64,487	61,443	\$197.09
TN Water Service, Inc. (W)	513	-	-	-	513	57,084	\$409.72
Total Environmental Solutions (W)	1142	-	-	-	1,142	N/A	\$52.20

"W" = Water / "S" = Wastewater

"N/A" = Usage is not metered.

ENERGY & WATER DIVISION STAFF



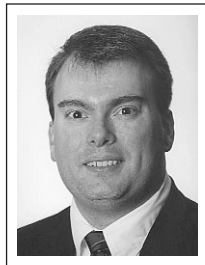
David McClanahan
Utility Consultant



Pat Murphy
Senior Financial Analyst

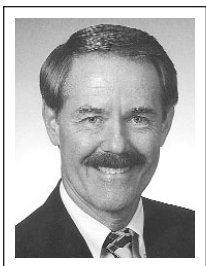


Betty Patton
Secretary



Butch Phillips
Utility Rate Specialist

GAS PIPELINE SAFETY DIVISION



Glynn Blanton
Chief

MISSION: Protect the public and environment from accidental release of natural gas or hazardous liquid products by pipeline. This protection is provided by a technologically advanced compliance program that promotes educational standards for industry and contributes to the health and security of the citizens of Tennessee.

A YEAR IN REVIEW

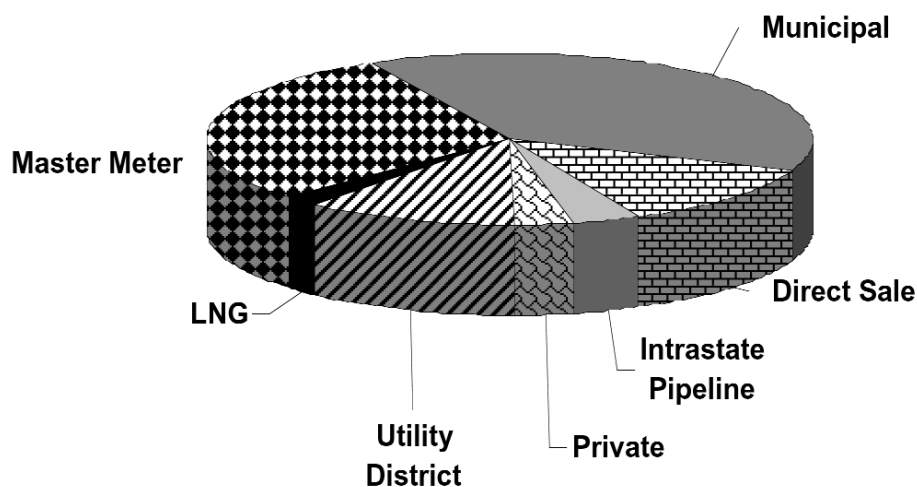
The Authority's Natural Gas Pipeline Safety certification with the United States Department of Transportation Office of Pipeline Safety (OPS) was renewed by agreeing to carry out a program to enforce the safety regulations contained in Parts 191, 192, 193 and 199 of the Code of Federal Regulations. This was the sixth year the agency has entered into this agreement. The federal government's annual review of the Authority's gas pipeline safety program, ensuring that federal guidelines, enforcement of safety laws, and state grant regulations are met, received a score of 96 points. The number of points awarded is directly related to the federal government's grant-in-aid reimbursement amount to the state's gas pipeline safety program. The grant allocation amount was 48 percent of the actual cost of the program and the remaining 52 percent was provided through the agency's pipeline safety user fees. Gas Safety engineers continued to conduct an array of safety, operation, construction, maintenance and drug and alcohol inspections on all jurisdictional liquefied natural gas facilities and natural gas distribution systems in Tennessee. The pipeline operators under TRA jurisdiction are illustrated and listed by type in the following chart and graph.

Types of Operators

Operator Type	Number of each
Liquefied Natural Gas (LNG)	4
Master Meter *	57
Municipal	74
Direct Sale	24
Intrastate Pipeline	7
Private	6
Utility District	22
Total	194

* Master Meter Systems includes Mobile Home Parks, Apartments and Housing Authorities

GAS PIPELINE SAFETY DIVISION



Integrity Management Program

This initiative is the result of a congressional mandate that required establishment of criteria for identifying pipeline facilities located in high-density population or environmentally sensitive areas. The initial focus of this initiative was on hazardous liquid pipelines but has now been extended to include natural gas pipelines.

On August 6, 2002, the federal Department of Transportation, Research and Special Programs Administration, (RSPA) issued a final rule amending 49 CFR, Part 192. The amendment adds a definition for “High Consequence Areas” (HCAs) to Subpart M of the regulations describing the types of facilities and distance from a transmission pipeline that constitute an HCA. The amendment itself requires no action by natural gas pipeline operators but represents the first step of a two step process. The second step will be the issuance of specific integrity management program requirements for areas that meet the HCA definition. Examples of what may be required within the HCAs are: increased leakage detection surveys, more frequent pipeline patrolling for damage by excavation or other causes, additional pipeline pressure testing, passage of internal inspection devices, or increased survey for damage due to corrosion. The specific integrity management program requirements are under development for future release.

Activities and Accomplishments:

Security

Security of Tennessee’s natural gas pipelines became more of an issue after the events of 9/11. The Gas Pipeline Safety Division (GPSD) works closely with the natural gas industry, and federal, state and local agencies to continually enhance security of Tennessee’s and the nation’s distribution and transmission pipelines.

The GPSD provides security information and issues security alert notices to natural gas operators when necessary. This Division has worked closely with the Tennessee Emergency Management Agency, Homeland Security Office, and the natural gas industry to assess response readiness to a terrorist attack. Steps have also been taken to improve GPSD’s ability to communicate directly and rapidly with pipeline operators in the case of an emergency or security alert level change.

GAS PIPELINE SAFETY DIVISION

Damage Prevention

The Gas Pipeline Safety Division (GPSD) is responsible for ensuring the safe, reliable operation of pipelines that serve communities across the State of Tennessee. Staff members meet this challenge through a variety of ongoing activities that address the problem of damage prevention. Activities include working with facility operators, excavators, locators, and other stakeholders to pinpoint potential problems and work toward a solution. A requirement of the Transportation Equity Act for the 21st Century led the federal Office of Pipeline Safety to convene state and local governments, utilities, and industries involved in underground excavation in a study of best excavation damage prevention practices. The resulting 1999 report called *Common Ground* was an important milestone in bringing together a variety of competing interests. Further, the development of the Common Ground Alliance in 2001 removed one of the federal pipeline safety issues listed by the National Transportation Safety Board's "Most Wanted List of Transportation Safety Improvements." The Common Ground Alliance is a non-profit organization promoting best practices in damage prevention to all underground facilities. The GPSD chief currently serves on the Common Ground Alliance Board of Directors representing the "State Regulator" stakeholder group and is a liaison to the Common Ground Alliance Education Committee. For more information, contact www.commongroundalliance.com.

Federal One-Call Grant

The Gas Pipeline Safety Division submitted an Application for a One-Call Damage Prevention Grant requesting funding in the amount of \$50,000. The application identified our efforts to conduct twenty-five one-hour mandatory in-service legal assistance training sessions for Metro-Nashville Police officers and development of a training videotape to be used by police officers and codes inspectors. The legal assistance presentation provided information on changes to Tennessee's Underground Utility Damage Prevention Law. The TRA received a check in the amount of \$47,500 from the United States Department of Transportation for the One-Call Damage Prevention Grant.

During the year, twenty-eight one-hour legal assistance training sessions were conducted for Nashville-Metro Police officers as well as eight training presentations to other regional operators on changes to Tennessee's Underground Utility Damage Prevention Law. TRA Gas Pipeline Safety staff members and general counsel presented the procedures with assistance of a power point presentation, videotape, and various handout materials. A copy of TCA §§65-31-101 through 113 was included in the material. The training classes provided enforcement and legal guidance procedures to 1,400 Nashville-Metro police officers and 190 police officers and codes enforcement personnel in West, Middle and East Tennessee.

Approximately 4,000 promotional items were distributed during the classes and presentations. Items consisted of paper note cubes, brochures, penlight flashlights, auto clip boards, stainless steel coffee mugs, long and short sleeve shirts, wind-breaker jackets, clock/calculators, thermoses, lighted ink pens, and satchels. All items proudly displayed the "Dig Safely" logo to facilitate public awareness about "Dig Safely" and the changes in Tennessee's state law.

Nashville Gas Waiver Request

A waiver was requested by Nashville Gas Company (NGC) and granted by the TRA for a 24-month pilot test of Polyamide (PA)11 pipe in the Mt. Juliet area. The approved waiver was forwarded to the federal Office of Pipeline Safety for federal approval. The waiver will allow NGC to operate PA11 at a safety factor of 0.40 instead of the 0.32 stated in Title 49 CFR 192.121 of the Minimum Federal Safety Standards. The current restriction of 100 psig on plastic pipe, as stated in Title 49 CFR 192.123 will also be waived. NGC will be allowed to have an operating pressure on the 2-inch Iron Pipe Size (IPS) main and 1-inch IPS service lines of 200 psig. The order includes provisions for removal of a test section of pipe at 12-month intervals to evaluate its performance under actual service conditions. Installation and performance testing will be monitored

GAS PIPELINE SAFETY DIVISION

by the Gas Pipeline Safety Division throughout the pilot project. PA11 is a relatively new material, which in laboratory tests has proven the capability of handling higher pressures than other currently used plastic pipe. Tests such as the one NGC is performing will help in determining if PA11 piping material is suitable for generalized use in higher pressure gas system applications. Nashville Gas Company's PA11 waiver is only the third of its kind in the United States.

Soft Close/Delayed Match

The Gas Pipeline Safety Division has recently become aware of several gas pipeline operators adopting a "Soft Close" or "Delayed Match" policy on discontinued gas services. These policies entail leaving the gas service on after the final bill and/or request for discontinuance of service by the customer. This provides a cost reduction to the gas pipeline operator and in some cases, additional convenience to the consumer. The Gas Safety staff has determined that this policy is in violation of Minimum Federal Safety Standards that require the flow of gas be terminated in prescribed manners. Title 49, CFR §192.727(d) states that, *"whenever service to a customer is discontinued, one of the following must be complied with: 1) The valve that is closed to prevent the flow of gas to the customer must be provided with a locking device or other means designed to prevent the opening of the valve by persons other than those authorized by the operator. 2) A mechanical device or fitting that will prevent the flow of gas must be installed in the service line or in the meter assembly. 3) The customer's piping must be physically disconnected from the gas supply and the open pipe ends sealed."* It is also the opinion of the Gas Pipeline Safety Division staff that this policy presents potential safety hazards that would not be present if the flow of gas were terminated as the referenced code section describes. A compliance order was issued to operators employing Soft Close and Delayed Match policies and these programs have been discontinued pending a decision from the federal Office of Pipeline Safety.

Operator Qualification

The Gas Pipeline Safety Division continues to evaluate operator qualification written plans for compliance with Minimum Federal Safety Standards. The deadline for qualification of personnel performing covered tasks was October 28, 2002. All operator qualification programs will be fully evaluated to determine if programs have been implemented in a manner consistent with Minimum Federal Safety Standards.

Welding Program

Approximately 400 TRA welder qualification cards were issued during the fiscal year. Natural gas pipeline welders are tested annually or every six months, depending upon the conditions under which they are qualified. The Gas Safety staff reviews welding test results and issues welding cards to qualified welders. The Gas Pipeline Safety Division is responsible for ensuring that all Tennessee natural gas operators and their contractors employ welders who are tested and qualified by an established, TRA approved welding procedure.

Training

The Gas Pipeline Safety Trainer/Engineer has conducted training seminars with fourteen natural gas operators to assist them in meeting the October 28, 2002 deadline for qualification of their pipeline personnel. These seminars consist of power point presentations, videos, classroom discussions, and testing on safety issues related to performance of job tasks. Since this initiative began, 245 individual certificates of completion have been issued to operator personnel. This initiative will continue as new employees are added to the workforce and operators reevaluate personnel on an ongoing basis.

GAS PIPELINE SAFETY DIVISION

Operator Qualification Team

The federal Department of Transportation Research and Special Programs Administration (RSPA) has identified inconsistencies in the interpretation and implementation of Operator Qualification programs across the United States. In order to provide uniformity, RSPA has formed a committee charged with identifying these inconsistencies and providing a set of inspection protocols to address problem areas. One individual from five state pipeline safety programs, which included a TRA Gas Pipeline Safety staff member, and five federal pipeline safety employees were chosen to serve on the committee. The committee has begun drafting inspection protocols and guidelines that will be utilized by state and federal pipeline safety inspectors across the country. In addition, frequently asked questions (FAQs) and responses are being developed to assist pipeline safety inspectors and operators in understanding the Operator Qualification regulation. This committee is expected to continue working through June 2003 and may continue beyond that date if new issues dictate additional needs.

Inspections

Total gas safety inspections performed on Tennessee local distribution systems was down this year to one hundred and sixty-three inspections due to the loss of two staff engineers. The Division obtained full staffing at the end of the fiscal year and anticipates inspecting each jurisdictional operator in the coming year. These inspections ensure that all operators are complying with the Minimum Federal Safety Standards (MFSS) by maintaining records, making reports, updating their operations and maintenance plans, and promptly repairing all hazardous leaks. These natural gas distribution operators consist of private companies, municipalities, utility districts, master meters, direct sales, and liquefied natural gas facilities. Staff members conduct several types of inspections to ensure compliance with all sections of the MFSS. Each operator's drug and alcohol programs are reviewed annually to ensure that required testing is being conducted. The following chart shows the numbers and types of inspections conducted from July 2001 to June 2002.

**Number of Inspections Performed
July 2001 - June 2002**

Inspections	
Standard	68.0
Specialized	66.0
Follow-Up	19.0
Construction	5.0
Incident	7.0
Training	14.0
LNG	4.0
Total	183.0
Total minus FU	164.0

GAS PIPELINE SAFETY DIVISION

VIOLATIONS CITED AND CLOSED

The violations cited by inspectors against an operator are recorded and filed on an ongoing basis. Each operator receives verbal and written notices of the violations and is given sixty days from receipt of the written notice to correct any deficiencies that may have warranted a citation. A follow up inspection is scheduled after the sixty day time period to ensure that action is being taken by the operator to correct all violations. Failure to take corrective action on cited violations could subject the operator to civil penalties in accordance with TCA Section 65-28-108. The steady decrease in the number of new violations cited can be attributed to the operator's ability to better comply with Minimum Federal Safety Standards and the priority given for safety of the transportation and distribution of natural gas. Listed below are the violations cited and closed.

Operator	Violations Cited	*Violations Closed
Private	2	7
Municipal	18	48
Utility District	6	14
Master Meters	9	16
Liquefied Natural Gas	0	0
Intrastate Pipeline	0	0
Totals	35	85

*Violations closed include violations cited from previous fiscal years

CIVIL PENALTIES

Tennessee Code Annotated section 65-28-108 states: "Any person who violates any provisions of the adopted Minimum Federal Safety Standards is subject to a civil penalty not to exceed ten thousand dollars (\$10,000) for each such violation for each day that such violation persists, except that the maximum civil penalty shall not exceed five hundred thousand dollars (\$500,000) for any continuing series of violations." No civil penalties were levied against natural gas operators for non-compliance action in correcting violations. The action of levying penalties is a method used by the TRA to protect the public and to ensure that operators are providing safe transportation of natural gas by pipelines.

NATURAL GAS INCIDENT(S)

The Minimum Federal Safety Standards Section 191.3 defines an incident as any of the following: 1. "An event that involves a release of gas from a pipeline or liquefied natural gas or gas from an LNG facility and i) A death, or personal injury necessitating in-patient hospitalization; or ii) Estimated property damage, including cost of gas lost, of the operator or others, or both, of \$50,000 or more, 2. An event that results in an emergency shutdown of an LNG facility. 3. An event that is significant, in the judgment of the operator, even though it did not meet the criteria of parts 1 or 2."

One reportable incident was called in to the Gas Pipeline Safety Division in the past fiscal year. The reportable incident resulted in personal injury. The goal of the Gas Pipeline Safety Division is to enforce the Minimum Federal Safety Standards that all natural gas operators must follow. Strict adherence to safety regulations and procedures is crucial in helping to prevent the release and subsequent ignition of natural gas.

GAS PIPELINE SAFETY DIVISION STAFF



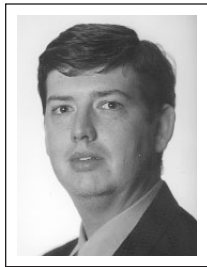
Earnest Burke
Senior Gas Safety Engineer



Eric Cherry
Gas Safety Engineer



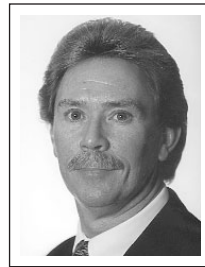
Vicky Nelson
Administrative Assistant



Clift Phillips
Gas Safety Engineer

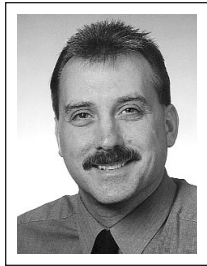


Brad Williams
Senior Gas Safety Engineer



Tom Woosley
Gas Safety Trainer/Engineer

INFORMATION SYSTEMS DIVISION



Tracy Stinson
Chief

MISSION: To provide effective and continually improving information management resources and services to the Authority.

The Information Systems Division's (ISD) goal is to develop and implement systems that will support the Agency's objectives and to effectively and efficiently manage the agency-wide automated information resources. The ISD staff consists of an Office Automation Specialist, an Information Systems Analyst III, and an Information Resource Support Specialist III.

Duties of the Information Systems Section:

- ◆ Plan and coordinate information system resources for the TRA.
- ◆ Develop the three year Information Systems Plan.
- ◆ Oversee the administration of the LAN for 60 plus workstations.
- ◆ Maintain and modify PC systems as needed.
- ◆ Develop new systems as required.
- ◆ Coordinate information resource training.
- ◆ Maintain databases/data entry.
- ◆ Maintain mainframe and LAN system security.
- ◆ Oversee hardware management.
- ◆ Provide service to agency's computer hardware

INFORMATION SYSTEMS DIVISION STAFF



Tonya Perry
Information Systems
Analyst



Dori Simpson
Office Automation
Specialist



Eugenia Williamson
Information Resource
Support Specialist

LEGAL DIVISION



Richard Collier
General Counsel

MISSION: To provide the Authority with sound and timely legal advice, effective counsel in the deliberative process, and zealous representation before state and federal agencies, reviewing courts and the General Assembly.

It is the responsibility of the Legal Division to provide in-house counsel to the Directors of the Authority. Attorneys from the Division also represent the Authority and the Directors in their official capacities before the Chancery Courts, Tennessee Court of Appeals, the Tennessee Supreme Court and in the Federal Courts. The Legal Division represents the Authority before the Federal Communications Commission and the Federal Energy Regulatory Commission. Members of the Legal Division often serve as Hearing Officers in contested cases and prosecutors in enforcement actions before the Authority. Division Attorneys are responsible for bill analysis as requested by the Legislative Fiscal Review Committee. They also assist in drafting rules to be promulgated by the Authority and prepare orders reflecting actions of the Directors in specific cases.

Accomplishments

During the past fiscal year 1318 dockets were opened requiring action by the Authority. Members of the Legal Division provided continuing research, document preparation and counsel to the Directors and staff in most of these dockets. The Legal Division also prepared 867 orders in tariff matters and contested cases for issuance by the Authority.

The Legal Division assisted the Authority in issuing decisions in several dockets relating to the Application of BellSouth Telecommunications, Inc. for entry into the interLATA (long distance) telecommunications market pursuant to 47 U. S. C. § 271. In those dockets the Authority established performance measurements and determined the regionality of BellSouth's operational support systems. The Legal Division argued in the Court of Appeals and the Tennessee Supreme Court in defense of the orders regarding the placement of names and logos of competing carriers on the cover of incumbents' telephone directories, the reclassification of payphone service, and the provision of Lifeline and directory assistance by reseller of telecommunications services.

Members of the Legal Division provided assistance to the Authority in rendering decisions on BellSouth's and United Telephone-Southeast's 2001 price regulation filings. The Legal Division also assisted in the preparation of rules establishing service standards for telecommunications service providers. The Legal Division participated in hearings which were conducted on applications for certificates of public convenience and necessity and approval of franchise agreements filed by competing local exchange carriers and gas companies and in proceedings setting rates for gas, water and waste water treatment utilities.

The Legal Division took action to enforce Tennessee's "Do Not Call," slamming and cramming statutes. With the assistance of the Consumer Services Division, the Legal Division commenced show cause proceedings for slamming, cramming and Do Not Call violations and recovered one of the largest fines in agency history. Members of the Legal Division served as Pre-Hearing Officers and provided counsel to the Authority in the arbitration of interconnection agreements and complaints arising therefrom between Competing Local Exchange Carriers and BellSouth.

LEGAL DIVISION

The Legal Division provided assistance to the Consumer Services Division in preparing and filing comments with the Federal Communications Commission related to number pooling and other number conservation measures.

The Legal Division continued its participation with the Division of Gas Pipeline Safety in the Authority's statewide "Dig Safely" program, including assistance with in-service training for the Metropolitan Davidson County Police Department.

Significant case activity for the 2001-2002 fiscal year included:

♦ TRA

Docket to Establish Generic Performance Measurements, Benchmarks and Enforcement Mechanisms for BellSouth Telecommunications, Inc.

Docket to Determine the Compliance of BellSouth Telecommunications, Inc.'s Operations Support Systems with State and Federal Regulations.

Several Dockets resulting in Settlement Agreements for violation of Tennessee's Do Not Call statute in which Legal Assisted Consumer Services.

Petition for Arbitration of the Interconnection Agreement between BellSouth Telecommunications, Inc. and AT&T Communications of the South Central States, Inc. and TCG MidSouth, Inc. pursuant to Section 252(b) of the Telecommunications Act of 1996.

Petition for Arbitration of the Interconnection Agreement between BellSouth Telecommunications, Inc. and Sprint Communications Company, L.P. pursuant to Section 252(b) of the Telecommunications Act of 1996.

All Telephone Companies Filings Regarding Reclassification of Pay Telephone Service as Required by FCC Docket 96-128.

Generic Docket to Establish UNE Prices for Line Sharing Per FCC 99-355, and Riser Cable and Terminating Wire as Ordered in TRA Docket 98-00123.

Petition of Tennessee UNE-P Coalition to Open Contested Case Proceeding to Declare Unbundled Switching and Unrestricted Unbundled Network Element.

LEGAL DIVISION

◆ Tennessee Court of Appeals and Supreme Court

Opinion issued in favor of TRA Decision in the case of Discount Communication's Complaint against BellSouth Telecommunications, Inc.

Briefs filed and case argued before the Court of Appeals in All Telephone Companies Filings Regarding Reclassification of Pay Telephone Service as Required by FCC Docket 96-128.

Briefs filed and case argued before the Tennessee Supreme Court in BellSouth Advertising and Publishing Corp. v. Tennessee Regulatory Authority

◆ U.S. District Court

Complaint and Petition for Judicial Review in the case of BellSouth Telecommunications, Inc. v. Brooks Fiber Communications of Tennessee, Inc.

Complaint and Petition for Judicial Review in the case of BellSouth Telecommunications, Inc. v. Adelpia Business Solutions of Nashville, L.P. (formerly d/b/a Hyperion of Tennessee, L.P.).

Complaint and Petition for Judicial Review in the case of BellSouth Telecommunications, Inc. v. NextLink Tennessee, Inc.

LEGAL DIVISION STAFF



Kim Beals
Counsel



Randal Gilliam
Counsel



Tina Stout
Administrative Secretary



Jon Wilke
Counsel

TELECOMMUNICATIONS DIVISION



Joseph T. Werner
Chief

Mission: To provide the directors of the TRA with the detailed analysis needed to make informed decisions on issues related to the development of competitive markets and the preservation of affordable prices for telecommunications services in Tennessee.

Telecommunications is a 5 billion dollar industry in Tennessee. In 1995, the Tennessee General Assembly revised the laws for regulating telecommunications in Tennessee. A year later Congress re-wrote the Federal telecommunications laws in the first major rewrite of Federal telecommunications laws since 1934. Both the State and Federal acts introduced competition in local telephone markets, called for reduced regulation, and directed the preservation of universal telephone service. While the new laws establish the basic framework for achieving these goals, state and federal regulators, like the TRA, are responsible for adopting the rules, regulations, policies and enforcement mechanisms to implement the legislative framework.

With the passage of State and Federal legislation introducing local telephone competition, the role of regulators has changed dramatically. Previously, the primary responsibility of telecommunications regulators was to set rates and prices based on accounting data and financial forecasts. Now, the primary focus of regulators is on developing a competitive marketplace while maintaining affordable prices. A majority of the work done by the Telecommunications Division is now dictated by the statutory requirements of the Telecommunications Act of 1996 and mandates by the Federal Communications Commission. Regulators now serve as referees, arbitrators and mediators to resolve disputes between competitive carriers. The Telecommunications Division is now addressing unprecedented issues such as breaking down the telephone network into its individual components and pricing each component, certifying new entrants into the local telephone market, establishing a universal service fund to maintain affordable telephone rates and resolving disputes between providers.

Implementing the requirements of the new laws is proving to be an arduous, yet challenging responsibility. To prepare the detailed analysis needed for the directors to make informed decisions not only requires a strong financial background but also knowledge of the telephone network. The Telecommunications Division now consists of eighteen employees including a telecommunications engineer, four CPAs, three economists and a paralegal. The Telecommunications Division works in concert with the Economic Analysis, Consumer Services and Legal Divisions in formulating recommendations on telecommunications issues before the TRA.

The last two years have proven to be tumultuous for the telecommunications industry. Nationwide, more than fifty (50) competitive local exchange carriers (CLECs) have declared bankruptcy while numerous others have ceased operations or otherwise experienced significant financial difficulties as a result of the dramatic downturn in the economy and the lack of capital dollars needed for CLECs to continue operating. Even the incumbent providers have experienced a significant decline in their market values. According to the Wall Street Journal, the market value of CLECs have declined approximately 85% over the last two years. Moreover, telecommunications companies across the nation have eliminated 500,000 jobs since 2000.

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Despite these widespread troubles in the telecommunications arena, Tennesseans are still seeing significant growth competitive activity in the business segments of the local telecommunications markets. As of June 30, 2002, thirty-seven (37) facilities-based competitors were offering telecommunications services in Tennessee. These thirty-seven (37) competitors serve 435,978 lines in the state, an increase of 29% over last year's totals. These lines are primarily to business customers in the State's four (4) largest metropolitan areas. This represents 13% of the Tennessee's total lines open to competition and 36% of the business lines subject to competition. On June 30, 2002, new market entrants had invested \$652.5 million in equipment and facilities in Tennessee since the passage of these new laws. Thirty-Eight (38) resellers are also providing local service to 25,479 lines. The majority of those lines are residential lines in the metropolitan areas.

Like previous years, the 2002 fiscal year was an active year for the Telecommunications Division. Below is a list of some of the major activities of the Telecommunications Division during the fiscal year.

◆ **Opening of BellSouth's Network To Competitors (271 Hearings)**

- Section 271 of the federal telecom act required the Regional Bell Operating Companies (RBOC) to "unbundle" their networks and offer individual network elements to CLECs on a wholesale basis. Once the RBOC, BellSouth in Tennessee, demonstrates that it has sufficiently opened its network to competitors and is offering such network elements to competitors on a nondiscriminatory basis, it is permitted to begin offering long distance services. During the fiscal year the Authority conducted a series of hearings to determine if BellSouth's network is suitably open to competitors. In September 2002, the Authority determined that BellSouth is in compliance with the 271 requirements and recommended that the Federal Communications Commission approve BellSouth's application to provide long distance services in Tennessee. In addition, the Authority adopted a comprehensive set of performance metrics, benchmarks and enforcement mechanisms to evaluate BellSouth's future performance quality with regard to the provisioning of network elements and other wholesale services to competitors.

◆ **Interconnection Complaints**

- Resolved twelve (12) formal interconnection disputes between competing carriers and incumbent providers. In most cases, the Authority was asked to interpret the language and requirements of the interconnection agreement signed by the parties.

◆ **Agreements to Interconnect the Networks of New Entrants with the Networks of Existing Telephone Companies**

- For multiple providers of telephone services to exist, there must be compatibility between providers so that customers of the different providers may call each other. Both the State and Federal telecommunications acts require all providers of telecommunications to interconnect their facilities with the facilities of other carriers. During the fiscal year, the Telecommunications Division reviewed seventy (70) interconnection agreements, twenty-five (25) Commercial Mobile Radio Service interconnection agreements and thirty-four (34) resale agreements.

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◆ Certification of Competitive Carriers

- Analyzed and approved the application of fourteen (14) companies requesting designation as facility-based competitive local exchange carriers. The Telecommunications Division also reviewed five (5) resellers of local telephone service and fifteen (15) resellers of long distance service during the fiscal year.

◆ Review of Contract Service Arrangements

- One of the ways that incumbent local exchange carriers have responded to the impending local telephone competition is by offering special pricing arrangements to selected customers. These arrangements, offered to large and medium-sized business customers, provide discounted prices to customers who commit to continue using BellSouth's service for a specified period of time, typically two to four years. In the 2002 fiscal year, the Telecommunications Division reviewed 310 contract service arrangements.

◆ Tariff Review

- Reviewed 838 tariff filings by telecommunications companies to introduce new services or to revise the rates, terms and conditions of existing services.

◆ Pay Telephone Certification

- Registered nineteen (19) payphone providers and 2,175 payphones during the fiscal year. The Authority also established cost-based rates for payphone access lines per the directives of the Federal Communications Commission (FCC).

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Telecommunications Service Providers Pertinent Data (Current As of June 30, 2002)

- Incumbent Local Exchange Carriers	18
- Competitive Local Exchange Carriers (Facilities Based)	93
- Telephone Cooperatives (Not regulated by the TRA)	10
- Local Service Resellers	73
- Long Distance Resellers	209
- Long Distance Companies (Facilities-Based)	4
- Pay Telephone Providers	240
- Pay Telephones	25,330
- Interconnection Agreements between Competitive Local Exchange and Incumbent Carriers	125
- Resale Agreements between Local Resellers and Incumbent Carriers	132
- Interconnection Agreements between Commercial Mobile Radio Services (CMRS) and Incumbent Carriers	75
- Resale Agreements between Commercial Mobile Radio Service (CMRS) and Incumbent Carriers	6

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Competitive Local Exchange Companies Certified by the TRA (As of October 31, 2002)

1. 1-800-RECONEX, Inc.
2. 360networks (USA)
3. Access Integrated Networks
4. Access Point, Inc.
5. Accutel of Texas
6. Adelphia Business Solutions of Nashville
7. Adelphia Business Solutions Operations
8. Aeneas Communications
9. Alec, Inc.
10. Alltel Communications
11. American Comm Svs. Of Chattanooga d/b/a e.spire
12. American Fiber Systems
13. AT&T Communications
14. BellSouth BSE
15. Ben Lomand Communications
16. Birch Telecom of the South
17. BlueStar Networks
18. Broadplex
19. Brooks Fiber Communications of Tennessee
20. Budget Phone, Inc.
21. Business Telecom
22. CCTN, Inc. d/b/a Connect!
23. CenturyTel Solutions
24. Ciera Network Systems
25. Cinergy Communications
26. Citizens Telecommunications Company
27. Cogent Communications of Tennessee
28. Comm South Companies, Inc.
29. DIECA Communications d/b/a Covad
30. Digital Teleport
31. Dixie-Net Communications
32. DSLnet Communications
33. Eagle Communications
34. East Tennessee Network
35. Electric Power Board of Chattanooga
36. Enron Broadband Services
37. Essex Communications
38. Excel Telecommunications, Inc.
39. Global Connection, Inc.
40. Global Crossing Local Services
41. Global NAPs Gulf
42. ICG Telecom Group
43. IDS Telcom
44. IG2, Inc.
45. Information Bureau, Inc.
46. Intermedia Communications
47. Intrado Communications
48. ITC^DeltaCom Communications
49. KMC DATA
50. KMC Telecom III
51. KMC Telecom V
52. Knology of Tennessee
53. LecStar Telecom
54. Level 3 Communications
55. Lightyear Communications
56. LoadPoint Telecommunications
57. Madison River Communications
58. Maverix.com
59. Maxcess, Inc.
60. MCI WorldCom Communications
61. MCImetro Access Transmission Services
62. McLeod USA Telecommunications
63. Memphis Networx
64. Metropolitan Fiber Systems of Tennessee
65. Momentum Business Solutions
66. MountaiNet Telephone Company
67. NA Communications
68. NationNet Communications
69. Navigator Telecommunications
70. Network Telephone Corporation
71. New Edge Network
72. New South Communications
73. NOS Communications
74. NOW Communications
75. Nu Vox Communications
76. One Point Communications
77. Premiere Network Services, Inc.
78. Progress Telecom Corporation
79. Qwest Communications Corp.
80. Qwest Interprise America, Inc.
81. SBC Telecom, Inc.
82. Sprint Communications Company
83. TCG MidSouth
84. Telepak Networks
85. Tele-SyS, Inc.
86. Teligent Services
87. Time Warner Telecom
88. Touch America
89. US LEC of Tennessee
90. US TelePacific Corp.
91. USCarrier Telecom
92. VarTec Telecom
93. VIVO-TN
94. Williams Communications
95. WinStar Wireless
96. XO Tennessee
97. Xspedius Corp.
98. Zephion Networks
99. Z-Tel Communications

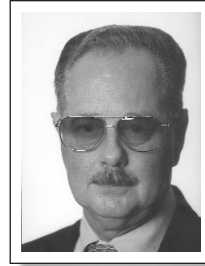
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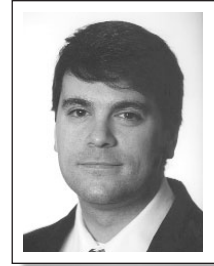
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Dee Audrain
Administrative Secretary



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Consultant



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Utility Rate Specialist



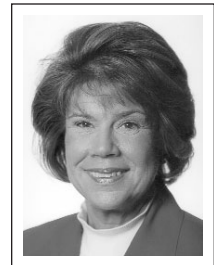
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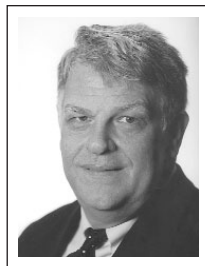
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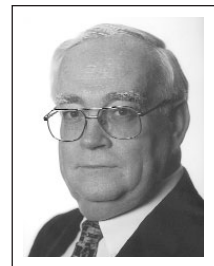
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